

Exhibit No.:

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Case Number:

Date Prepared:

Rate Design

Donald E. Johnstone

Direct Testimony

AGP

WR-2008-0311

September 3, 2008

Missouri American Water Company  
WR-2008-0311

Direct Testimony of

**Donald E. Johnstone**

on behalf of the

AG PROCESSING INC A COOPERATIVE

September 3, 2007



**BEFORE THE**  
**PUBLIC SERVICE COMMISSION OF MISSOURI**

In the Matter of Missouri-American Water       )  
Company's Request for Authority to                )  
Implement a General Rate Increase for            )  
Water and Sewer Service Provided                )  
in Missouri Service Areas                            )

WR-2008-0311

**Affidavit of Donald E. Johnstone**

State of Missouri       )  
                                      )  
County of Jackson     )

SS

Donald E. Johnstone, being first duly sworn, on his oath states:

1. My name is Donald E. Johnstone. I am a consultant and President of Competitive Energy Dynamics, L. L. C. I reside at 384 Black Hawk Drive, Lake Ozark, MO 65049. I have been retained by AG PROCESSING INC A COOPERATIVE.

2. Attached hereto and made a part hereof for all purposes are my testimony and schedules in written form for introduction into evidence in the above captioned proceeding.

3. I hereby swear and affirm that my testimony is true and correct and show the matters and things they purport to show.

  
Donald E. Johnstone

Subscribed and sworn to this 3<sup>rd</sup> day of September, 2008.

  
Notary Public

My Commission expires: 8/15/2009

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Missouri American Water Company  
WR-2007-0216

Direct Testimony of Donald E. Johnstone

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Missouri American Water Company

WR-2008-0311

Direct Testimony of Donald E. Johnstone

1 INTRODUCTION - SUMMARY

2 Q PLEASE STATE YOUR NAME AND ADDRESS.

3 A Donald E. Johnstone. My address is 384 Black Hawk Drive, Lake Ozark, MO  
4 65049.

5 Q BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

6 A I am President of Competitive Energy Dynamics, L. L. C. My qualifications and  
7 experience are set forth in Schedule 1 attached to this testimony.

8 Q ON WHOSE BEHALF ARE YOU APPEARING?

9 A I am appearing on behalf of AG PROCESSING INC A COOPERATIVE ("AGP"). AGP  
10 is a customer in the St. Joseph District.

11 Q PLEASE SUMMARIZE YOUR TESTIMONY.

12 A AGP supports the proposition that the reasonable cost of providing services  
13 should be the fundamental starting point for the design of rates. At the same  
14 time, AGP wishes to avoid undue discrimination in rates - which can arise when  
15 different rates are charged to customers that are similarly situated and impose

1 similar usage characteristics on the water system. The point is that different  
2 rates are appropriate to the extent that there are differences in costs that are  
3 reflected in the rates. Otherwise, it is important that similarly situated  
4 customers in the same district pay the same rate.

5 In this case the MAWC submitted no cost study in support the special  
6 contract rates. Also, AGP continues to be concerned with the use of the rate  
7 classes (i.e. Residential, Commercial, Industrial, Public Authority and Sales for  
8 Resale). First, the tariff does not define what it takes to be in one of these  
9 classes. More importantly, there is no MAWC cost study in this case that is  
10 based on the usage characteristics of the customers and customer classes in the  
11 Saint Joseph District. Rather, what is used is borrowed data that is simply  
12 assumed to represent the local customers.

13 Silence on other issues and the testimonies of other parties does not  
14 indicate either support or acquiescence to any other particular proposal and  
15 my client reserves the right to assert additional positions at appropriate times  
16 in this proceeding.

17 **THE MAWC RATE DESIGN PROPOSAL**

18 Q PLEASE SUMMARIZE THE RATE DESIGN PROPOSAL OF MAWC FOR THE ST.  
19 JOSEPH DISTRICT.

20 A MAWC proposes a continuation of much of the existing structure for the Saint  
21 Joseph District, but with large and disproportionate increases in the rates that

1 apply to larger usage volumes. There is also a continuing problem in that  
2 neither the present tariff nor the proposed tariff states definitions for what it  
3 takes to belong to one or another of the rate classes.

4  
5 **RECOMMENDATION**

6 Q SHOULD THE RELATIVE CHARGES FOR THE RATE CLASSES WITHIN THE SAINT  
7 JOSEPH DISTRICT BE CHANGED IN THIS PROCEEDING?

8 A Yes. The simple answer is that rates should reflect the costs of providing the  
9 service. However, there is a fundamental problem in that MAWC has not  
10 developed and submitted the data necessary to support a reliable class cost-of-  
11 service study. The study in this case, like the studies in recent cases is  
12 premised on the assumption that usage characteristics borrowed from other  
13 areas are valid.

14 Another concern is the base and excess cost allocation method. Costs  
15 that relate to the capacity to provide water should be allocated according to  
16 the capacity needs placed on the system because it is the need for capacity  
17 that creates the costs. Variable costs should be allocated according to the  
18 total usage of the customers and customer classes. Another consideration is  
19 the use of distribution facilities. Large volume customers need large pipes to  
20 supply there needs. The costs associated with the multitude of smaller pipes  
21 used in providing service to smaller customers have nothing to do with service  
22 to large volume customers. Thus such costs should be segregated and allocated

1 to the customers that require use of the multitude of smaller facilities. This  
2 recognition of facilities used in the various services coupled with a  
3 fixed/variable approach to the allocation of costs and the design of rates would  
4 better capture the essential cost causative factors. Of course it is  
5 fundamentally important to develop and use actual usage characteristics for  
6 the district.

7 Q WHAT CHANGES DO YOU RECOMMEND IN THE RATES FOR THE ST. JOSEPH  
8 DISTRICT?

9 A First, the customer charges should be increased as proposed by MAWC to better  
10 reflect the fixed costs of local delivery facilities and other customer related  
11 costs. Given the rate reduction for St. Joseph supported by the Staff of the  
12 Commission, other charges can be reduced.

13 Q HOW SHOULD THE RATES FOR THE SAINT JOSEPH DISTRICT BE CHANGED?

14 A First, I agree with the increase in customer charges as proposed by MAWC.  
15 Second, I recommend that the St. Joseph District \$1,407,224 revenue reduction  
16 recommended by the Staff at a 7.73% return be accommodated with an 18.6%  
17 reduction in usage charges for all customer classes. The industrial class would  
18 receive the same 42.2% increase in customer charges, the same 18.6% decrease  
19 in usage rates, and an overall net decrease of 17%.

1 Q WHAT VOLUMETRIC RATES DO YOU RECOMMEND FOR THE INDUSTRIAL RATE  
2 CLASS IN THE SAINT JOSEPH DISTRICT, ASSUMING THE MIDPOINT OF THE  
3 STAFF'S REVENUE DECREASE RECOMMENDATION?

4 A I recommend the following rates:

Saint Joseph District Recommended Volumetric Rates per CCF For the Industrial Class	
<u>Volumetric Block</u>	<u>Recommended Rates</u>
First	\$3.7796
Second	\$2.1172
Third	\$1.2771
Tail	\$1.0432

5 Q WHAT VOLUMETRIC RATES DO YOU RECOMMEND FOR THE RESIDENTIAL AND  
6 OTHER NON-INDUSTRIAL RATE CLASSES IN THE SAINT JOSEPH DISTRICT,  
7 ASSUMING THE MIDPOINT OF THE STAFF'S REVENUE DECREASE  
8 RECOMMENDATION?

9 A I recommend the following rates:



Saint Joseph District Recommended Volumetric Rates per CCF For the Non-Industrial Classes	
<u>Volumetric Block</u>	<u>Recommended Rates</u>
First	\$2.5783
Second	\$2.0024
Third	\$1.6684
Tail	\$1.1379

1 Q WHAT IS THE IMPACT OF YOUR RATE RECOMMENDATION ON THE REVENUES  
2 OF THE CUSTOMER CLASSES?

3 A The recommendation provides a net decrease for the major customer classes  
4 that ranges from a .4% reduction for the residential class to a 17.9% reduction  
5 for the Sales for Resale class.

6 Q DOES THIS CONCLUDE YOUR TESTIMONY?

7 A Yes it does.

### Qualifications of Donald E. Johnstone

**Q PLEASE STATE YOUR NAME AND ADDRESS.**

**A** Donald E. Johnstone. My address is 19 Black Hawk Drive, Lake Ozark, MO 65049.

**Q PLEASE STATE YOUR OCCUPATION.**

**A** I am President of Competitive Energy Dynamics, L.L.C. and a consultant in the field of public utility regulation.

**Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A** In 1968, I received a Bachelor of Science Degree in Electrical Engineering from the University of Missouri at Rolla. After graduation, I worked in the customer engineering division of a computer manufacturer. From 1969 to 1973, I was an officer in the Air Force, where most of my work was related to the Aircraft Structural Integrity Program in the areas of data processing, data base design and economic cost analysis. Also in 1973, I received a Master of Business Administration Degree from Oklahoma City University.

From 1973 through 1981, I was employed by a large Midwestern utility and worked in the Power Operations and Corporate Planning Functions. While in the Power Operations Function, I had assignments relating to the peak demand and net output forecasts and load behavior studies which included such factors as weather, conservation and seasonality. I also analyzed the cost of

Schedule 1  
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Competitive Energy  
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replacement energy associated with forced outages of generation facilities. In the Corporate Planning Function, my assignments included developmental work on a generation expansion planning program and work on the peak demand and sales forecasts. From 1977 through 1981, I was Supervisor of the Load Forecasting Group where my responsibilities included the Company's sales and peak demand forecasts and the weather normalization of sales.

In 1981, I began consulting, and in 2000, I created the firm Competitive Energy Dynamics, L.L.C. As a part of my twenty years of consulting practice, I have participated in the analysis of various electric, gas, water, and sewer utility matters, including the analysis and preparation of cost-of-service studies and rate analyses. In addition to general rate cases, I have participated in electric fuel and gas cost reviews and planning proceedings, policy proceedings, market price surveys, generation capacity evaluations, and assorted matters related to the restructuring of the electric and gas industries. I have also assisted companies seeking locations for new manufacturing facilities.

I have testified before the state regulatory commissions of Delaware, Hawaii, Illinois, Iowa, Kansas, Massachusetts, Missouri, Montana, New Hampshire, Ohio, Pennsylvania, Tennessee, Virginia and West Virginia, and the Rate Commission of the Metropolitan St. Louis Sewer District.